
Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
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Machinery And Equipment Property Tax

ISSUE

Review of property taxes on machinery and equipment.

AFFECTED AGENCIES

State of Iowa and local government entities such as counties, cities, and school districts.

CODE AUTHORITY

Chapter 427B, Code of Iowa

BACKGROUND

Personal property is defined as all property not defined as real property except for machinery and equipment which is defined as a separate class of property in Iowa. The State of Iowa taxed all personal property prior to FY 1975. In FY 1975, the credit was established which began phasing out the property tax on personal property. From FY 1975 to FY 1987, the personal property tax credit was increased and on July 1, 1987, the property tax on personal property was eliminated.

Machinery and equipment is defined as a separate class of property in Iowa and is subject to property taxes. Machinery and equipment acquired prior to January 1, 1981, was taxed at 100% of the net acquisition cost. Machinery and equipment acquired between January 1, 1981, and December 31, 1984, was taxed at 30.0% of the net acquisition cost and the State provided a reimbursement to local governments equal to 70.0% of the net acquisition cost. The State reimbursement was not funded in FY 1992 and was repealed in FY 1993. Machinery and equipment purchased after January 1, 1985, is taxed at 30.0% of its net acquisition cost and the State did not establish a reimbursement for local governments.

The impact of the State eliminating the reimbursement for machinery and equipment acquired between January 1, 1981, and December 31, 1984, and not providing a State reimbursement for machinery and equipment acquired after January 1, 1985, is that local governments were forced to forego the revenue or shift the property taxes that had been levied against machinery and equipment to other classes of property. This only applies for machinery and

equipment that was replacing items that had been on the tax rolls at 100.0% of net acquisition cost or that had participated in the State reimbursement program.

CURRENT SITUATION

In FY 1994, machinery and equipment represented an estimated total taxable valuation of \$2.27 billion statewide. The Department of Management had not finished consolidated tax rates for FY 1994 at the time of this *Issue Review*, however, the estimated amount of property taxes derived from machinery and equipment for FY 1994 is \$72.6 million. In FY 1993, the actual taxable valuation of machinery and equipment was \$2.21 billion statewide and the property tax generated was \$72.4 million. A listing of machinery and equipment taxable valuation, taxes raised, and the percent machinery and equipment represents of total property taxes is presented on a county by county basis in Table 1. Machinery and equipment represent 3.0% of the total taxable valuation and 3.3% of total property taxes raised statewide in FY 1993.

The State of Iowa requires 30.0% of the net acquisition cost of machinery and equipment to be included in taxable valuation. There are minor exceptions for recycling equipment and equipment located in economic enterprise zones. The states adjoining Iowa assess machinery and equipment as follows:

<u>State</u>	<u>Machinery and Equipment Property Tax Assessment</u>
Illinois	Exempt (Replaced With Income Tax)
Kansas	25.0% of Market Value Depreciated Over 7 Years
Minnesota	Exempt
Missouri	Market Value
Nebraska	Depreciated Value
South Dakota	Exempt
Wisconsin	Exempt (Minor Exceptions Based on Use)

During the 1994 Legislative Session, the elimination or phase-out of the property tax on machinery and equipment was reviewed. The Governor proposed that machinery and equipment purchased after December 31, 1993, be exempt from property tax. This included machinery and equipment purchased as replacement for machinery and equipment that had previously been on local governments' tax rolls, forcing local governments to shift taxes to the remaining taxable valuation or forego the revenue. This proposal would have required the State to increase State Aid to replace revenue to school districts that had been raised by the uniform property tax levy against the machinery and equipment that was proposed to be exempted.

During the 1994 Legislative Session, the Legislature considered SF 2167 (Machinery and Equipment Property Tax Exemption) that would have allowed new machinery and equipment to be exempt from property taxes and created a new State reimbursement for new machinery and equipment that was replacing items that had previously been on the tax rolls. However, SF 2167 did not address the additional dollar levy in the school foundation formula which would have allowed schools to be paid twice for the additional dollar levy (once from property taxes and once from the State reimbursement). This problem could have been corrected by amending the school foundation formula so the State reimbursement for machinery and equipment could be recognized as revenue within the school finance formula to adjust the additional property tax levy.

ALTERNATIVES

- Leave the machinery and property tax levy as it currently exists.
- Exempt only new machinery and equipment purchases (including the replacement of equipment currently on the tax rolls) and do not provide a reimbursement to local governments. (Assuming a 20-year phase-out period).
- Exempt only new machinery and equipment purchases (including the replacement of equipment currently on the tax rolls) and provide a reimbursement to local governments. (Assuming a 20-year phase-out period).

BUDGET IMPACT

- The first proposal would result in property tax revenue of approximately \$72.4 million for local governments in FY 1995 based on FY 1993 data.
- The second proposal would reduce property tax revenue for local governments by approximately \$3.0 million a year (adjusted for State Aid increase) and would require the State to increase State Aid to local schools by approximately \$600,000 a year. At the conclusion of the phase-out period (20 years), local governments would have forgone or shifted to other assessed property approximately \$60.4 million (adjusted for State Aid increase) in property taxes and the State would be required to increase State Aid to local schools by \$12.0 million. These calculations are based on FY 1993 data.
- The third proposal would require the State to provide a reimbursement for property taxes to local governments of approximately \$3.0 million a year (adjusted for State Aid increase) and would require the State to increase State Aid to local schools by approximately \$600,000 a year. At the
- conclusion of the phase-out period (20 years), the State would provide local governments a reimbursement of approximately \$60.4 million (adjusted for State Aid increase) and the State would be required to increase State aid to local schools by \$12.0 million for a total impact of \$72.4 million. These calculations are based on FY 1993 data.

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TABLE 1
 LEGISLATIVE FISCAL BUREAU
 TAXABLE VALUATIONS AND PROPERTY TAXES RAISED IN FY 1993
 FOR MACHINERY AND EQUIPMENT AND GRAND TOTALS ON A COUNTY BY COUNTY BASIS

COUNTY	M & E TAXABLE VALUATION FY 1993	M & E PROPERTY TAXES FY 1993	TOTAL TAXABLE VALUATION FY 1993	TOTAL PROPERTY TAXES FY 1993	M & E TAXABLE VALUATION AS A PERCENT OF TOTAL VALUATION	M & E PROPERTY TAXES AS A PERCENT OF TOTAL PROPERTY TAXES
ADAIR	\$2,090,775	\$68,281	\$316,264,380	\$7,988,753	0.66%	0.85%
ADAMS	0*	0	178,223,676	4,420,051	0.00%	0.00%
ALLAMAKEE	4,136,951	112,888	423,520,760	10,331,077	0.98%	1.09%
APPANOOSE	10,533,962	413,925	238,282,059	7,905,498	4.42%	5.24%
AUDUBON	1,706,340	61,938	270,643,345	7,269,773	0.63%	0.85%
BENTON	5,334,732	176,832	603,215,865	16,493,209	0.88%	1.07%
BLACK HAWK	107,270,630	4,716,498	2,284,034,033	93,420,787	4.70%	5.05%
BOONE	5,203,401	145,241	619,040,313	17,716,929	0.84%	0.82%
BREMER	17,187,308	564,975	526,753,515	15,208,949	3.26%	3.71%
BUCHANAN	0*	0	503,475,184	13,887,329	0.00%	0.00%
BUENA VISTA	12,669,884	433,391	611,984,155	16,352,339	2.07%	2.65%
BUTLER	2,391,103	68,454	426,713,836	10,806,639	0.56%	0.63%
CALHOUN	1,387,768	42,856	462,756,197	10,895,454	0.30%	0.39%
CARROLL	16,493,407	453,655	650,963,925	16,140,324	2.53%	2.81%
CASS	7,322,289	199,072	435,408,762	11,901,774	1.68%	1.67%
CEDAR	5,425,990	148,383	554,181,734	14,354,537	0.98%	1.03%
CERRO GORDO	0*	0	1,237,983,917	33,655,694	0.00%	0.00%
CHEROKEE	4,220,789	118,523	440,529,925	10,862,538	0.96%	1.09%
CHICKASAW	11,372,101	314,809	378,657,546	9,716,103	3.00%	3.24%
CLARKE	5,603,126	216,864	205,753,358	7,100,521	2.72%	3.05%
CLAY	9,700,411	218,288	567,474,742	13,020,552	1.71%	1.68%
CLAYTON	7,025,755	214,766	519,953,466	14,116,274	1.35%	1.52%
CLINTON	132,269,917	4,405,298	1,228,488,456	36,649,817	10.77%	12.02%
CRAWFORD	7,570,097	248,621	474,950,165	13,805,223	1.59%	1.80%
DALLAS	11,061,652	384,732	840,797,225	27,558,155	1.32%	1.40%
DAVIS	1,875,201	80,732	160,622,728	5,431,773	1.17%	1.49%
DECATUR	1,511,077	58,873	166,523,469	5,608,706	0.91%	1.05%
DELAWARE	11,820,524	350,732	519,083,149	13,350,705	2.28%	2.63%
DES MOINES	80,856,751	2,658,922	970,493,482	30,732,683	8.33%	8.65%

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DICKINSON	5,255,992	152,672	708,531,570	15,615,035	0.74%	0.98%
DUBUQUE	76,810,027	2,382,695	1,762,225,482	55,985,996	4.36%	4.26%
EMMET	5,433,076	139,346	338,975,049	8,437,000	1.60%	1.65%
FAYETTE	10,250,816	335,189	578,226,723	15,857,419	1.77%	2.11%
FLOYD	9,802,460	333,115	455,295,065	12,887,755	2.15%	2.58%
FRANKLIN	4,690,874	134,316	493,135,085	11,601,177	0.95%	1.16%
FREMONT	18,580,134	457,630	333,662,178	7,970,424	5.57%	5.74%
GREENE	6,201,732	218,704	411,845,933	10,687,616	1.51%	2.05%
GRUNDY	6,766,300	213,145	441,158,495	11,216,488	1.53%	1.90%
GUTHRIE	1,174,521	40,215	363,564,174	9,543,505	0.32%	0.42%
HAMILTON	9,786,519	265,752	588,919,072	14,852,799	1.66%	1.79%
HANCOCK	17,083,985	544,336	573,853,803	13,526,922	2.98%	4.02%
HARDIN	14,685,636	536,676	555,832,897	15,600,638	2.64%	3.44%
HARRISON	1,688,811	57,780	449,761,218	12,215,366	0.38%	0.47%
HENRY	14,992,487	496,207	449,117,086	13,812,115	3.34%	3.59%
HOWARD	2,681,804	104,060	293,201,327	8,291,677	0.91%	1.25%
HUMBOLDT	3,543,716	111,574	408,643,699	10,590,176	0.87%	1.05%
IDA	3,419,896	93,027	312,786,777	6,993,007	1.09%	1.33%
IOWA	30,376,187	594,270	494,372,640	11,221,635	6.14%	5.30%
JACKSON	4,447,274	149,860	432,473,811	12,652,787	1.03%	1.18%
JASPER	45,547,981	1,653,067	915,674,144	29,174,557	4.97%	5.67%
JEFFERSON	10,091,904	324,603	400,607,448	11,178,410	2.52%	2.90%
JOHNSON	61,557,004	1,878,248	2,344,888,095	66,979,129	2.63%	2.80%
JONES	9,420,341	279,895	481,049,390	12,253,319	1.96%	2.28%
KEOKUK	3,704,088	93,696	371,280,990	9,169,754	1.00%	1.02%
KOSSUTH	11,551,381	326,007	836,080,406	17,226,818	1.38%	1.89%
LEE	86,328,845	3,180,594	820,244,496	27,680,482	10.52%	11.49%
LINN	224,198,929	7,410,248	4,346,598,145	141,224,650	5.16%	5.25%
LOUISA	1,936,155	52,961	399,390,046	10,050,536	0.48%	0.53%

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LUCAS	2,571,466	102,478	188,043,268	6,711,517	1.37%	1.53%
LYON	1,073,523	23,383	373,932,048	7,540,347	0.29%	0.31%
MADISON	818,740	30,187	328,701,260	10,378,978	0.25%	0.29%
MAHASKA	7,789,082	281,481	526,794,735	16,724,031	1.48%	1.68%
MARION	49,398,977	1,476,953	648,304,666	18,183,101	7.62%	8.12%
MARSHALL	33,717,072	1,298,288	893,975,208	29,732,120	3.77%	4.37%
MILLS	1,384,217	42,565	414,350,756	10,557,235	0.33%	0.40%
MITCHELL	5,860,480	178,860	345,811,543	8,380,823	1.69%	2.13%
MONONA	2,306,315	64,452	372,188,006	8,371,835	0.62%	0.77%
MONROE	83,198,541	2,163,403	260,536,320	8,462,611	31.93%	25.56%
MONTGOMERY	5,904,315	200,244	337,291,038	9,837,818	1.75%	2.04%
MUSCATINE	126,852,995	4,143,420	1,069,738,457	34,884,147	11.86%	11.88%
O'BRIEN	2,522,016	76,188	516,536,474	11,971,452	0.49%	0.64%
OSCEOLA	4,719,924	137,772	282,506,289	6,462,618	1.67%	2.13%
PAGE	8,247,197	311,590	381,249,440	11,582,439	2.16%	2.69%
PALO ALTO	2,070,541	65,647	428,644,238	10,445,155	0.48%	0.63%
PLYMOUTH	10,195,868	282,810	730,014,782	16,382,894	1.40%	1.73%
POCAHONTAS	2,527,127	60,356	437,747,795	9,154,587	0.58%	0.66%
POLK	197,849,406	7,833,399	8,467,079,869	330,910,104	2.34%	2.37%
POTTAWATTAMI	6,396,677	226,526	1,924,834,689	61,403,625	0.33%	0.37%
POWESHIEK	14,194,438	409,984	545,194,598	13,503,240	2.60%	3.04%
RINGGOLD	548,027	23,097	164,529,728	4,863,139	0.33%	0.47%
SAC	1,759,440	48,630	418,681,532	9,944,800	0.42%	0.49%
SCOTT	237,164,071	6,461,783	3,634,183,453	120,195,254	6.53%	5.38%
SHELBY	1,820,360	52,656	430,224,805	11,133,716	0.42%	0.47%
SIoux	10,376,834	247,818	788,530,824	17,789,035	1.32%	1.39%
STORY	27,536,146	841,153	1,579,374,215	46,403,119	1.74%	1.81%
TAMA	8,588,923	258,889	539,559,406	13,599,443	1.59%	1.90%
TAYLOR	241,513	8,365	179,008,358	5,092,926	0.13%	0.16%

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UNION	6,262,753	227,476	268,835,640	9,670,216	2.33%	2.35%
VAN BUREN	2,199,825	82,555	160,026,217	5,260,153	1.37%	1.57%
WAPELLO	19,605,794	816,654	645,091,192	23,818,393	3.04%	3.43%
WARREN	3,410,562	116,197	747,271,145	24,013,928	0.46%	0.48%
WASHINGTON	12,755,467	388,485	554,936,810	15,146,174	2.30%	2.56%
WAYNE	2,372,830	75,275	195,997,362	5,188,280	1.21%	1.45%
WEBSTER	19,394,990	604,084	1,014,603,294	31,874,623	1.91%	1.90%
WINNEBAGO	5,570,240	156,102	378,588,154	9,040,532	1.47%	1.73%
WINNESHIEK	4,904,024	167,660	496,958,320	15,151,308	0.99%	1.11%
WOODBURY	72,537,321	2,363,759	2,170,448,077	72,602,975	3.34%	3.26%
WORTH	679,448	20,899	303,532,766	7,268,782	0.22%	0.29%
WRIGHT	20,223,537	626,471	566,354,492	13,007,827	3.57%	4.82%
	<u>\$2,213,601,838</u>	<u>\$72,435,431</u>	<u>\$72,888,379,880</u>	<u>\$2,203,844,658</u>	<u>3.04%</u>	<u>3.29%</u>

* A TAXABLE VALUATION OF \$0 FOR M & E IS DUE TO THE COUNTY AUDITOR INCLUDING THE VALUATION IN ANOTHER PROPERTY CLASSIFICATION (I.E. INDUSTRIAL)